Cincinnati Christian University

Consolidated Financial Report
June 30, 2018

Contents

Independent Auditor's Report

Board of Trustees
Cincinnati Christian University
Cincinnati, Ohio

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Cincinnati Christian University and its subsidiaries (the University), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cincinnati Christian University and its subsidiaries as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that Cincinnati Christian University and its subsidiaries will continue as a going concern. As discussed in Note 19 to the financial statements, the University has suffered recurring decreases in net assets that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 19. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2019 on our consideration of Cincinnati Christian University and its subsidiaries internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cincinnati Christian University's internal control over financial reporting and compliance.

RSM US LLP

Cincinnati, Ohio
March 29, 2019

Cincinnati Christian University

Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	**$ 569,713**	$ 722,659
Student accounts receivable, net	**361,174**	300,775
Contributions receivable, net	**30,219**	38,691
Other receivables, net	**163,642**	147,853
Investments	**322,380**	1,062,300
Inventory	**94,608**	123,013
Prepaid expenses	**54,975**	54,823
Beneficial interests held in trusts	**620,970**	601,209
Property and equipment, net	**12,405,368**	13,051,408
Total assets	**$ 14,623,049**	$ 16,102,731
Liabilities and Net Assets		
Accounts payable	**$ 1,206,710**	$ 1,120,427
Accrued payroll and related withholdings	**244,689**	215,443
Annuities payable	**463,699**	493,462
Revolving notes payable	**1,700,000**	500,000
Advanced tuition and other student deposits	**270,345**	273,919
Deposits held for others	**14,131**	13,999
Debt	**6,129,284**	6,401,814
Capital leases payable	**84,763**	200,095
Total liabilities	**10,113,621**	9,219,159
Net assets:		
Unrestricted	**(1,952,291)**	95,611
Temporarily restricted	**2,200,156**	2,538,208
Permanently restricted	**4,261,563**	4,249,753
Total net assets	**4,509,428**	6,883,572
Total liabilities and net assets	**$ 14,623,049**	$ 16,102,731

See notes to consolidated financial statements.

Cincinnati Christian University

Consolidated Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total**
Revenues and other support:				
Student tuition, fees and other charges	$ 9,264,647	$ -	$ -	**$ 9,264,647**
Less student aid	3,994,236	-	-	**3,994,236**
Net tuition, fees and other charges	5,270,411	-	-	**5,270,411**
Government grants	97,733	2,250	-	**99,983**
Contributions	1,061,530	177,825	11,810	**1,251,165**
Auxiliary enterprises	2,597,917	-	-	**2,597,917**
Net interest income and investment gains	42,338	50,230	-	**92,568**
Net assets released from restrictions	568,357	(568,357)	-	**-**
Total revenues and other support	9,638,286	(338,052)	11,810	**9,312,044**
Expenses:				
Instruction	3,180,414	-	-	**3,180,414**
Student services	2,991,491	-	-	**2,991,491**
Academic support	1,043,655	-	-	**1,043,655**
Auxiliary enterprises and activities	2,005,023	-	-	**2,005,023**
Institutional support	2,327,979	-	-	**2,327,979**
Fundraising	137,626	-	-	**137,626**
Total expenses	11,686,188	-	-	**11,686,188**
Change in net assets	(2,047,902)	(338,052)	11,810	**(2,374,144)**
Net assets:				
Beginning	95,611	2,538,208	4,249,753	**6,883,572**
Ending	$ (1,952,291)	$ 2,200,156	$ 4,261,563	**$ 4,509,428**

See notes to consolidated financial statements.

Cincinnati Christian University

Consolidated Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Student tuition, fees and other charges	$ 10,831,033	$ -	$ -	$ 10,831,033
Less student aid	4,691,251	-	-	4,691,251
Net tuition, fees and other charges	6,139,782	-	-	6,139,782
Government grants	53,550	7,362	-	60,912
Contributions	1,139,443	180,052	67,433	1,386,928
Auxiliary enterprises	3,015,033	-	-	3,015,033
Net interest income and investment gains	192,423	56,820	-	249,243
Net assets released from restrictions	577,186	(577,186)	-	-
Total revenues and other support	11,117,417	(332,952)	67,433	10,851,898
Expenses:				
Instruction	3,742,544	-	-	3,742,544
Student services	3,118,309	-	-	3,118,309
Academic support	1,112,893	-	-	1,112,893
Auxiliary enterprises and activities	2,388,424	-	-	2,388,424
Institutional support	2,488,269	-	-	2,488,269
Fundraising	184,788	-	-	184,788
Total expenses	13,035,227	-	-	13,035,227
Change in net assets	(1,917,810)	(332,952)	67,433	(2,183,329)
Net assets:				
Beginning	2,013,421	2,871,160	4,182,320	9,066,901
Ending	$ 95,611	$ 2,538,208	$ 4,249,753	$ 6,883,572

See notes to consolidated financial statements.

Cincinnati Christian University

Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	**$ (2,374,144)**	$ (2,183,329)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**878,753**	905,002
Net realized and unrealized investment gains	**(73,925)**	(160,293)
Gain on sale of property and equipment	**-**	(22,398)
Non-cash contributions received	**(32,054)**	(62,612)
Actuarial loss on annuity obligations	**70,294**	61,467
Change in fair value of beneficial interest held in trusts	**(44,349)**	(50,306)
Contributions restricted for long-term investment	**(11,810)**	(72,433)
Changes in operating assets and liabilities:		
Student accounts and other receivables	**(76,188)**	(173,497)
Contributions receivable	**8,472**	15,839
Inventory	**28,405**	20,479
Prepaid expenses	**(152)**	96,049
Accounts payable and accrued payroll and related withholdings	**115,529**	417,178
Advanced tuition and other student deposits	**(3,574)**	(141,229)
Deposits held for others	**132**	35
Net cash used in operating activities	**(1,514,611)**	(1,350,048)
Cash flows from investing activities:		
Proceeds from sale of investments	**2,224,704**	3,017,933
Purchase of investments	**(1,354,217)**	(1,096,827)
Purchase of property and equipment	**(213,031)**	(606,777)
Proceeds from the sale of property and equipment	**-**	27,600
Net cash provided by investing activities	**657,456**	1,341,929
Cash flows from financing activities:		
Contributions restricted for long-term investment	**11,810**	72,433
Annuity payments	**(100,057)**	(103,840)
Net proceeds under revolving notes payable	**1,200,000**	-
Borrowings under debt	**-**	25,473
Payments on debt	**(292,212)**	(346,547)
Payments on capital leases payable	**(115,332)**	(173,840)
Net cash provided by (used in) financing activities	**704,209**	(526,321)
Net decrease in cash and cash equivalents	**(152,946)**	(534,440)

Cincinnati Christian University

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
Cash and cash equivalents:		
Beginning	**$ 722,659**	$ 1,257,099
Ending	**$ 569,713**	$ 722,659
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 432,771**	$ 436,214

See notes to consolidated financial statements.

Note 1. Description of the Organization

Organization and purpose: Cincinnati Christian University (CCU or University) was incorporated on July 19, 1928 in the state of Ohio as a not-for-profit institution. CCU's purpose is to educate persons for the ministry and church-related leadership vocations, as well as develop well-rounded leaders who follow Christ and positively impact their community, country and the world. CCU is a coeducational institution of higher learning offering undergraduate and graduate degrees and has been accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools.

Cincinnati Christian University Foundation (the Foundation) is a Section 501(c)(3) organization organized under the laws of the state of Ohio for the purpose of providing financial and other support for, and to otherwise operate for the benefit of CCU. The Foundation was incorporated on December 5, 2011. CCU and the Foundation are related through common control.

CCU Management Company LLC (the Company) is a limited liability company that was organized under the laws of the state of Florida. The Company is a single member limited liability company in which the Foundation is the sole member. As a result, the Company is a disregarded entity under the Internal Revenue Code. The Company did not have any financial activity during the years ended June 30, 2018 and 2017.

Note 2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the accompanying consolidated financial statements (collectively, the financial statements):

Basis of presentation: The financial statements include the accounts of CCU, the Foundation, and the Company, hereafter, collectively the University. All intercompany accounts and transactions are eliminated in consolidation. The accompanying financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification.

Net assets: The University displays its net assets and activities based on the existence or absence of donor-imposed restrictions as follows:

> **Unrestricted**: Net assets that are not subject to donor-imposed restrictions. The board of trustees retains full control to use in achieving any of its objectives.
>
> **Temporarily restricted**: Net assets subject to donor-imposed restrictions that can be fulfilled either by actions of the University pursuant to those restrictions or that expire by the passage of time.
>
> **Permanently restricted**: Net assets subject to donor-imposed restrictions that the principal remain in perpetuity by the University. As provided for in the gift instrument, the income earned is available to be used for unrestricted or temporarily restricted purposes subject to UPMIFA.

Revenue recognition: Tuition revenue is recognized during each semester that a student is enrolled in one of the University's programs. Tuition payments received but unearned as of the end of the fiscal year are recorded as advanced tuition and other student deposits and amortized over the appropriate academic term. Government grant revenue is recognized when it is earned by incurring the allowable expenditure.

Note 2. Summary of Significant Accounting Policies (Continued)

Contributions, including unconditional promises to give, are recognized as revenue when donors' commitments are received. Conditional promises to give are not recognized until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are measured at net realizable value. Unconditional promises to give that are expected to be collected after one year are recorded at the present value of the estimated future cash flows using a risk-free rate of return. Discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. The University records contributions of land, buildings, and equipment at the fair value of the property at the date of the gift. The gifts are recorded as unrestricted unless the donor places restrictions on their use. Donated securities are recorded as contributions at the fair value of the security at the date of the gift. The University uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises to give.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Restricted earnings on investments and donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Revenue from auxiliary enterprises is recognized as goods or services are provided.

Cash and cash equivalents: Cash and cash equivalents include deposits in financial institutions, money market funds, and investments that have maturities of less than three months when purchased.

Student accounts receivable: Student accounts receivable represent credit extended to students with no underlying collateral. Such balances are due at the beginning of each semester and are stated net of an allowance for doubtful accounts. Students unable to meet the requirement are able to enter into short-term payment arrangements. Payments not made by the due date are considered past due. The University determines its allowance for doubtful accounts based on the estimated net realizable value of expected collections based on historical collection rates. Student accounts are written off when deemed uncollectible.

Other receivables: Other receivables consist of amounts due to the University for bookstore and other revenue generated by the University and for notes receivables that consist of student loan programs. The University determines its allowance for doubtful accounts based on the estimated net realizable value of expected collections based on historical collection rates. Other receivables are written off when deemed uncollectible.

Investments: Investments are measured at fair value in the consolidated statements of financial position (see Note 15). Investment income or loss is included in the consolidated statements of activities as increases or decreases in unrestricted net assets unless the investment income or loss is restricted by donor or law.

Inventory: Inventory consists primarily of textbooks, journals, clothing and other items sold in the University's bookstore. Inventory is stated at the lower of cost or market, with cost determined on the first-in, first-out method.

Debt issuance costs, net: The costs incurred related to the issuance of debt are presented net of the related debt and are amortized over the expected life of the related notes. Letter of credit fees are amortized over the period covered by the letter of credit. These costs are amortized using a method that approximates the effective interest method.

Note 2. Summary of Significant Accounting Policies (Continued)

Beneficial interests held in trusts: The University is the beneficiary of trusts held and administered by independent trustees. Under the terms of the trusts, the University has the right to receive a portion of the income earned on the trust assets. The fair value of the beneficial interest in the trusts is recognized as an asset and a temporarily restricted contribution at the date the trusts are established. The University's estimate of fair value is based on fair value information received from the trustees. The trust assets consist primarily of mutual funds, equities, certificates of deposit, fixed income obligations and corporate obligations. These assets are not subject to control or direction by the University. The University's beneficial interest in trusts is valued at the University's share of the investments held by the trust.

Property and equipment, net: Expenditures for property and equipment and items which substantially increase the useful lives of owned assets are capitalized at cost at the date of acquisition. Donated property and equipment is recorded at the approximate fair value at the date of the gift. Repairs and maintenance are expensed when incurred.

Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	40 years
Buildings	40 years
Equipment, furniture and fixtures	3-10 years
Vehicles	4-10 years
Library books	6-20 years

When property and equipment is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized. The University reviews its long-lived assets if changes in circumstances indicate that the carrying amount may not be recoverable. Management believes there has been no impairment in the carrying value of its long-lived assets.

Annuities payable: The University has entered into charitable gift annuity agreements. Under these agreements, a donor contributes assets to the University in exchange for the right to receive a fixed dollar annual return during the donor's lifetime. A portion of the transfer is considered to be a charitable contribution for income tax purposes. The difference between the assets transferred for the gift annuity and the liability for future payments, determined on an actuarial basis, is recognized as a contribution at the date of the gift. The annuity liability is revalued annually using a discount rate established at the inception of the agreement and appropriate actuarial assumptions. The change in value of the gift annuity contracts is included in temporary restricted contribution revenue.

Functional allocation of expenses: The costs of providing the programs and other activities have been summarized on a functional basis on the consolidated statement of activities. Expenses have been allocated based on the actual direct expenditure benefit to each respective function and allocation of indirect costs based on square footage assumptions.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Note 2. Summary of Significant Accounting Policies (Continued)

Credit concentration: From time to time, in the normal course of business, the University may have funds on deposit with financial institutions in excess of insured limits. The University has not experienced any losses and management believes the University is not exposed to any significant credit risk on cash.

Income taxes: CCU and the Foundation are recognized by the Internal Revenue Service as organizations exempt from income taxes on related income under Section 501(c)(3) of the U.S. Internal Revenue Code. The Foundation may have unrelated business income. Taxes on the unrelated business income, if any, are not material to the financial statements. In addition, CCU and the Foundation have been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code.

Management has evaluated the tax positions of CCU and the Foundation and has concluded that no uncertain tax positions have been taken that require adjustment to or disclosure in the financial statements. CCU and the Foundation file a U.S. Federal tax return. Generally, CCU and the Foundation are no longer subject to tax examinations for fiscal years before June 30, 2015. CCU and the Foundation have no examinations in progress.

Advertising: The University expenses all advertising costs when incurred. Advertising expense was $158,692 and $62,980 for the years ended June 30, 2018 and 2017, respectively.

Recently issued accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The University is currently in the process of assessing what impact this new standard may have on its financial statements and determining what transition method will be used.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The University is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This accounting standard makes improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The standard sets forth improvements to net asset classification requirements and the information presented about a not-for-profit entity’s liquidity, financial performance and cash flows. ASU 2016-14 will be effective for years beginning after December 15, 2017. The University is currently evaluating the impact of the adoption of this standard on its financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*: Restricted Cash (a consensus of the FASB Emerging Issues Task Force), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the University beginning on January 1, 2019. The University is currently evaluating the impact of the adoption of this guidance on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This accounting standard provides further guidance for contributions received and contributions made and will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance. The guidance also provides clarity on determining whether a contribution is conditional. ASU 2018-08 will be effective for the University's fiscal year beginning after December 15, 2018. The University is currently evaluating the impact of the adoption of this standard on its financial statements.

Note 3. Student Accounts Receivable, net

Student accounts receivable consist of the following at June 30:

	2018	2017
Amounts due from students for tuition and other costs	$ 511,174	$ 450,775
Allowance for doubtful accounts	(150,000)	(150,000)
Net value	$ 361,174	$ 300,775

Note 4. Investments

Investments are summarized as follows at June 30:

	2018	2017
Equity securities	$ 17,514	$ 412,162
Corporate bonds and notes	26,608	146,559
Government bonds and notes	-	207,217
Mutual funds - equities	197,431	60,833
Mutual funds - bonds	26,289	26,660
Exchange-traded funds	54,538	208,869
Total	$ 322,380	$ 1,062,300

Note 4. Investments (Continued)

The consolidated statements of activities includes the following components of return on investments and the beneficial interests held in trusts for the years ended June 30:

	2018		
	Unrestricted	Temporarily Unrestricted	Total
Interest and dividends	$ 17,284	$ 12,080	$ 29,364
Net realized and unrealized gains	29,576	44,349	73,925
Investment fees	(4,522)	(6,199)	(10,721)
	$ 42,338	$ 50,230	$ 92,568

	2017		
	Unrestricted	Temporarily Unrestricted	Total
Interest and dividends	$ 49,451	$ 11,622	$ 61,073
Net realized and unrealized gains	160,293	50,306	210,599
Investment fees	(17,321)	(5,108)	(22,429)
	$ 192,423	$ 56,820	$ 249,243

Note 5. Property and Equipment, net

Property and equipment consists of the following at June 30:

	2018	2017
Land improvements	$ 2,335,469	$ 2,277,379
Buildings	16,876,954	16,738,858
Equipment, furniture and fixtures	6,709,840	6,697,156
Vehicles	426,409	426,409
Library books	1,980,959	2,061,683
	28,329,631	28,201,485
Accumulated depreciation and amortization	(17,584,268)	(16,847,728)
Land	1,650,005	1,650,005
Construction-in-progress	10,000	47,646
	$ 12,405,368	$ 13,051,408

Note 6. Annuities Payable

Annuities payable were $463,699 and $493,462 at June 30, 2018 and 2017, respectively. The annuity rates used range from 5.7 percent to 9.0 percent as of June 30, 2018 and 2017. For the years ended June 30, 2018 and 2017, payments made to annuitants totaled $100,057 and $103,840 , respectively.

Contribution revenue related to annuity agreements was zero for both years ended June 30, 2018 and 2017, respectively. Changes in the status of gift annuity contracts and changes in value of the gift annuity contracts resulted in an actuarial change in annuities payable of $70,294 and $61,467 for the years ended June 30, 2018 and 2017, respectively.

Note 7. Revolving Note Payable

The University has a revolving note with a bank providing for maximum borrowings up to $1,700,000 at June 30, 2018 ($500,000 at June 30, 2017) with a maturity in May 2019. Borrowings under the revolving note accrue interest at the bank's index rate (3.50 percent for both years ended June 30, 2018 and 2017) plus 1.00 percent, but cannot be less than 5.25 percent, and is due quarterly. The revolving note is secured by substantially all of the University's assets and is subject to certain affirmative and negative covenants. At June 30, 2018 and 2017, the University had outstanding borrowings of $1,700,000 and $500,000, respectively on the revolving note.

Interest expense on the revolving note payable, debt (Note 8), and capital leases payable (Note 9) was $432,771 and $436,214 for the years ended June 30, 2018 and 2017, respectively.

Note 8. Debt

Debt consists of the following at June 30:

	2018	2017
Term note payable to a bank, due in monthly installments of $1,767, including interest at 5.75 percent through May 2019. The note is secured by a building.	$ 218,703	$ 226,859
Installment notes payable to an automobile credit company, due in monthly installments ranging from $376 to $801, expiring at various times through November 2018, bearing interest from zero percent to 8.59 percent per annum. The note was paid in full subsequent to year end. The notes are secured by certain vehicles.	3,689	18,526
Installment notes payable to a company, due in monthly installments ranging from $2,381 to $3,434, expired at various times through March 2018, bore interest at 15 percent per annum. The notes represented seller financing of four houses and renovations to another two houses owned by CCU. The title was transferred to CCU in May 2018.	-	24,108

Note 8. Debt (Continued)

	2018	2017
Term note payable to a bank, due in monthly installments of $48,772, including interest at 5.75 percent through May 2023. The note is secured by substantially all of the University's assets and is subject to certain affirmative and negative covenants.	$ 5,843,092	$ 6,060,555
Term note payable to a company, due in monthly installments of $694 through June 2020. The note is non-interest bearing. The note is due on demand if the service contract with the company is cancelled prior to full repayment of the note. The note is secured by certain equipment, furniture and fixtures.	16,667	25,000
Term note payable to a bank, due in monthly installments of $1,434, including interest at 6.30 percent through June 2020. The note is secured by certain fixtures.	32,263	46,934
Term note payable to a bank, due in monthly installments of $490, including interest at 5.96 percent through November 2021. The note is secured by certain fixtures.	18,119	22,763
	6,132,533	6,424,745
Less: unamortized bond issuance cost	(3,249)	(22,931)
	$ 6,129,284	$ 6,401,814

The aggregate principal maturities of long-term debt are as follows:

Year ending June 30,	
2019	$ 833,484
2020	612,406
2021	587,751
2022	584,836
2023	582,259
Thereafter	2,931,797
	$ 6,132,533

Note 9. Capital Leases Payable

The University leases equipment, furniture and fixtures and building improvements under capital leases expiring in various years through March 2019. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the lower of their related lease terms or their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for the years ended June 30, 2018 and 2017. Subsequent to year end the capital leases were paid in full.

Minimum future lease payments required under current capital lease terms are as follows:

Year ending June 30,	
2019	86,293
Amount representing interest	(1,530)
Capital leases payable	$ 84,763

Cost and accumulated amortization of the assets capitalized in connection with the above capital lease agreements are as follows:

	2018	2017
Equipment	$ 457,549	$ 552,126
Accumulated amortization	(153,653)	(147,130)
Net value	$ 303,896	$ 404,996

Note 10. Retirement Plan

The University sponsors a defined contribution retirement plan through Internal Revenue Code Section 403(b). The plan covers all full time employees who have completed one year of service and one thousand hours. Contributions to the covered employees' third-party annuity accounts are determined at the discretion of the board of trustees. The University's contribution percentage was 3 percent for the years ended June 30, 2018 and 2017. Voluntary employee contributions are permitted up to the maximum allowed by the Internal Revenue Code. Total retirement plan expense was $51,233 and $54,920 for the years ended June 30, 2018 and 2017, respectively.

Note 11. Commitments

Operating leases: The University leases various equipment under operating leases. The monthly payments on the non-cancelable leases range from $228 to $11,980 and expire at various times through May 2023. Rent expense under the operating leases was $256,916 and $268,983 for the years ended June 30, 2018 and 2017, respectively.

Note 11. Commitments (continued)

The following is a schedule, by year, of the future minimum rental payments required under the above operating leases:

Year ending June 30,	
2019	$ 369,446
2020	150,746
2021	66,301
2022	31,140
2023	27,918
	$ 645,551

Note 12. Temporarily Restricted Net Assets

Activity related to temporarily restricted net assets consist of the following for the years ended June 30:

	2018			
	Beginning Balance	Additions	Net Assets Released	Ending Balance
Alumni association	$ 158,943	$ 620	$ -	$ 159,563
Double honor initiative project	467,559	-	410,065	57,494
Loan funds	168,337	322	4,704	163,955
Property and equipment	498,685	-	-	498,685
Student tuition and living expenses	155,969	9,207	7,068	158,108
Scholarships	284,922	10,975	5,000	290,897
Time restricted	456,747	40,000	29,169	467,578
Other	347,046	169,181	112,351	403,876
	$ 2,538,208	$ 230,305	$ 568,357	$ 2,200,156

Note 12. Temporarily Restricted Net Assets (Continued)

	2017			
	Beginning Balance	Additions	Net Assets Released	Ending Balance
Alumni association	$ 171,368	$ 1,825	$ 14,250	$ 158,943
Double honor initiative project	838,318	-	370,759	467,559
Loan funds	178,376	365	10,404	168,337
Property and equipment	493,685	5,000	-	498,685
Student tuition and living expenses	147,468	14,819	6,318	155,969
Scholarships	293,331	19,391	27,800	284,922
Time restricted	442,499	42,020	27,772	456,747
Other	306,115	160,814	119,883	347,046
	$ 2,871,160	$ 244,234	$ 577,186	$ 2,538,208

Note 13. Permanently Restricted Net Assets

Net assets are permanently restricted for the following purposes at June 30:

	2018	2017
Scholarships	$ 3,499,049	$ 3,492,099
Russel School of Ministry	520,562	517,002
Other	241,952	240,652
	$ 4,261,563	$ 4,249,753

Note 14. Endowment Funds

The University's endowments include only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees of the University has interpreted the Ohio Uniform Prudent Management of Institutional Funds Act (OUPMIFA) enacted in the state of Ohio as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the University classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by OUPMIFA.

Note 14. Endowment Funds (continued)

In accordance with OUPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the University and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the University
(7) The investment policies of the University

During 2018 and 2017, the fair value of assets associated with individual donor-restricted endowment funds were below the level that the donor or OUPMIFA required the University to retain as a fund of perpetual duration. This deficit was a result of the University liquidating investments during the year which were required to fund operational needs. In accordance with GAAP, deficiencies in the donor-restricted endowment fund that are required to be reported in unrestricted net assets are $4,261,563 and $2,464,797 as of June 30, 2018 and 2017, respectively.

Endowment net asset composition by type of fund consists of the following as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (4,261,563)	$ -	$ 4,261,563	$ -

Changes in endowment net assets for the year ended June 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (2,464,797)	$ -	$ 4,249,753	$ 1,784,956
Investment return income	13,691	-	-	13,691
Net appreciation (realized and unrealized)	29,576	-	-	29,576
Total investment return	43,267	-	-	43,267
Contributions	-	-	11,810	11,810
Appropriation of endowment assets				-
for expenditure	(1,840,033)	-	-	(1,840,033)
Endowment net assets, end of year	$ (4,261,563)	$ -	$ 4,261,563	$ -

Note 14. Endowment Funds (continued)

Endowment net asset composition by type of fund consists of the following as of June 30 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (2,464,797)	$ -	$ 4,249,753	$ 1,784,956

Changes in endowment net assets for the year ended June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (256,004)	$ -	$ 4,182,320	$ 3,926,316
Investment return income	49,450	-	-	49,450
Net depreciation (realized and unrealized)	143,110	-	-	143,110
Total investment return	192,560	-	-	192,560
Contributions	-	-	67,433	67,433
Appropriation of endowment assets				-
for expenditure	(2,401,353)	-	-	(2,401,353)
Endowment net assets, end of year	$ (2,464,797)	$ -	$ 4,249,753	$ 1,784,956

The University's board of trustees has adopted investment and spending policies for endowment assets that attempt to provide for the preservation of capital with an emphasis on consistent long-term growth of principal and income without undue exposure to risk that will provide a predictable stream of funding to programs. The endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity. The objective of the endowment fund's rate of return is to be equal to or greater than the spending rate plus the inflation rate.

To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The University has established an investment spending policy of appropriating for distribution each year a minimum of five percent of the previous four quarters' moving average of principal value (the donated value, excluding appreciation) of the endowment funds. In years where the current year earnings in the fund exceed the minimum, a formula is used to calculate the additional amounts above the minimum that can be disbursed from the fund while allowing the fund to grow at a rate in excess of inflation. If the investment return is less than the minimum return, the appropriation for distribution is adjusted appropriately. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow at an acceptable rate annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

As noted above, as of June 30, 2018 CCU has borrowed against its endowment assets and accordingly the policies and objectives noted above are suspended.

Note 15. Fair Value of Financial Instruments

The University measures its investments and its beneficial interest held in trusts at fair value on a recurring basis. A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels that are ranked to indicate the quality and reliability of the resulting fair value measure:

Level 1: Inputs utilize quoted market prices in active markets for identical assets or liabilities

Level 2: Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals

Level 3: Inputs are unobservable for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity

The University uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the University measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 and Level 2 inputs are not available.

Equity securities and exchange-traded funds are valued on the active market on which the individual securities are traded. Corporate and government bonds and notes are valued using pricing models maximizing the use of observable inputs for similar securities. Mutual funds are valued at the daily closing price as reported by the fund. Beneficial interests held in trusts are valued at the University's share of the investments held by the trusts. Annuities payable are valued using a discount rate established at the inception of the agreement and appropriate actuarial assumptions.

For the fiscal years ended June 30, 2018 and 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Note 15. Fair Value of Financial Instruments (Continued)

The following tables set forth by level within the fair value hierarchy the University's financial assets and liabilities that were accounted for at a fair value on a recurring basis as of June 30, 2018 and 2017. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The University's assessment of the significance of a particular input to fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels.

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities:				
Consumer goods	$ 1,177	$ -	$ -	$ 1,177
Financial services	3,439	-	-	3,439
Healthcare	2,305	-	-	2,305
Industrial goods	4,614	-	-	4,614
Technology	754	-	-	754
Basic materials	4,197	-	-	4,197
Services	1,028	-	-	1,028
	17,514	-	-	17,514
Corporate bonds and notes	26,608	-	-	26,608
Mutual funds:				
Equities:				
International	17,494	-	-	17,494
Small cap	12,762	-	-	12,762
Mid-cap	9,856	-	-	9,856
Large cap	91,424	-	-	91,424
Index	65,895	-	-	65,895
Bonds	26,289	-	-	26,289
	223,720	-	-	223,720
Exchange-traded funds:				
Real estate	7,168	-	-	7,168
Ishares	47,370	-	-	47,370
	54,538	-	-	54,538
Total investments	$ 322,380	$ -	$ -	$ 322,380
Beneficial interests held in trusts	$ -	$ -	$ 620,970	$ 620,970
Annuities payable	$ -	$ -	$ 463,699	$ 463,699

Note 15. Fair Value of Financial Instruments (Continued)

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities:				
Consumer goods	$ 11,066	$ -	$ -	$ 11,066
Financial services	41,820	-	-	41,820
Healthcare	73,665	-	-	73,665
Industrial goods	54,614	-	-	54,614
Technology	128,578	-	-	128,578
Basic materials	23,173	-	-	23,173
Services	79,246	-	-	79,246
	412,162	-	-	412,162
Corporate bonds and notes	146,559	-	-	146,559
Government bonds and notes	207,217	-	-	207,217
Mutual funds:				
Equities:				
Small cap	7,089	-	-	7,089
Mid-cap	3,226	-	-	3,226
Large cap	16,614	-	-	16,614
Index	33,904	-	-	33,904
Bonds	26,660	-	-	26,660
	87,493	-	-	87,493
Exchange-traded funds:				
Index	60,208	-	-	60,208
Large cap	38,402	-	-	38,402
Mid cap	21,935	-	-	21,935
Small cap	25,839	-	-	25,839
Real estate	15,104	-	-	15,104
International	24,837	-	-	24,837
Fixed income	22,544	-	-	22,544
	208,869	-	-	208,869
Total investments	$ 1,062,300	$ -	$ -	$ 1,062,300
Beneficial interests held in trusts	$ -	$ -	$ 601,209	$ 601,209
Annuities payable	$ -	$ -	$ 493,462	$ 493,462

Note 15. Fair Value of Financial Instruments (Continued)

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value:

	Beneficial Interests Held in Trusts	Annuities Payable
Balance at July 1, 2017	$ 601,209	$ 493,462
Change in value	19,761	(29,763)
Balance at June 30, 2018	$ 620,970	$ 463,699

	Beneficial Interests Held in Trusts	Annuities Payable
Balance at July 1, 2016	$ 571,905	$ 535,835
Change in value	29,304	(42,373)
Balance at June 30, 2017	$ 601,209	$ 493,462

Note 16. Economic Dependency

The University participates in certain student financial aid programs of the U.S. Department of Education. The University is dependent on the U.S. Department of Education for continued financial aid assistance to the University and its students. The programs consist of student loans, loans to parents of dependent children, student grants and part-time employment. The student financial aid programs are subject to audit by the U.S. Department of Education.

Note 17. Risks and Uncertainties

The University received a communication from the Department of Education (DOE) dated July 19, 2018 that the University had failed to meet the financial responsibility standards for the year ended June 30, 2017. The University's composite score for the year ended June 30, 2017 was 0.4 and the Department of Education requires a composite score of 1.5. The DOE required the University to obtain an irrevocable letter of credit in the amount of $3,362,675, which represents 50 percent of the University's federal student financial aid funding. In addition, the University must provide timely disclosure to the DOE upon the occurrence of certain oversight and financial events.

Note 18. Subsequent Events

Subsequent events: Subsequent events have been evaluated through March 29, 2019, the date the financial statements were available to be issued.

Letter of credit: The University is contingently liable under an irrevocable bank standby letter of credit issued on September 28, 2018 in connection with their compliance to the DOE as noted in Note 17. The letter of credit has a limit of $3,362,675. There were no draws on this letter of credit as of March 29, 2019. The letter of credit was obtained to cover 50 percent of the University's federal student financial aid funding for the period September 2018 through October 2019.

Note 19. Recent Financial Results and Management's Plan to Address Going Concern

The University's financial statements have been prepared assuming that the University will continue as a going concern. As discussed below, the University has experienced recurring decreases in net assets that raises substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are described below. The financial statements do not include any adjustments that might results from the outcome of this uncertainty.

For the year ended June 30, 2018, the University had a decrease in net assets of approximately $2,374,000.

The University is not generating cash flow from its operations to meet its operational or debt service needs. However, the University extended the terms of one of its term notes payable with the bank through 2023 and increased its available borrowings under its revolving note payable to $1,700,000 during 2018 to assist with cash flow needs over the long-term. Through this arrangement, the bank has eliminated all financial covenants associated with this debt.

As a result of the decrease in net assets and cash flow management, the University has spent accumulated permanently restricted endowment earnings and has spent the principal of its permanently restricted endowment. In addition, the University has spent donor-restricted contributions before meeting the donor restriction. These conditions have resulted in significant liquidity challenges for the University. However, the University has continued to provide all qualified recipients of endowed scholarships the promised awards.

The University will continue to pursue conversations with certain donors who may allow the removal of restrictions on contributions made to the University and plans to structure an internal repayment plan associated with restoration of the spending of donor-restricted funds.

The University leadership has reviewed its interim results and is considering additional options, which may include the sale of certain assets, renegotiated third party agreements, and reductions in selling, general and administrative costs.

Cincinnati Christian University

Uniform Guidance Audit Requirements

Cincinnati Christian University

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Provided to Subrecipients	Total Federal Expenditures
Student Financial Aid Cluster:			
Department of Education			
Federal Supplemental Educational Opportunity Grants	84.007	$ -	$ 25,130
Federal Work-Study Program	84.033	-	63,372
Federal Pell Grant Program	84.063	-	1,164,236
Federal Direct Student Loans Program (Note 4)	84.268	-	4,482,955
Total Student Financial Aid Cluster		$ -	$ 5,735,693

See notes to schedule of expenditures of federal awards.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Cincinnati Christian University (the University) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The University has elected not to exercise its option to use the 10-percent de minimis indirect cost rate due to the fact that the University has an existing approved indirect cost rate.

Note 4. Federal Direct Student Loans Program

The University acts as an intermediary for students receiving loans under the Federal Direct Student Loans Program. The federal government is responsible for billings and collections of the loans. The University assists the federal government by processing the applications and applying funds to student accounts from the federal government. Since this program is administered by the federal government, new loans made in the fiscal year ended June 30, 2018, related to the Federal Direct Student Loans Program are considered current year federal expenditures, whereas the outstanding loan balances are not. The total amount processed during the year ended June 30, 2018 is included on the schedule of expenditures of federal awards. The University is responsible only for the performance of certain administrative duties with respect to the Federal Direct Student Loans Program and, accordingly, balances and transactions relating to the loan programs are not included in the University's basic financial statements. Therefore, it is not practical to determine the balance of loans outstanding to student and former students of the University at June 30, 2018.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Cincinnati Christian University
Cincinnati, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Cincinnati Christian University (the University), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated March 29, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be significant deficiency.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2018-002.

University's Response to Findings

The University's responses to the findings identified in our audit are described in the accompanying corrective action plan. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Cincinnati, Ohio
March 29, 2019

Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Cincinnati Christian University
Cincinnati, Ohio

Report on Compliance for Each Major Federal Program
We have audited Cincinnati Christian University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal programs for the year ended June 30, 2018. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program
In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Other Matters
The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-003 and 2018-004. Our opinion on the major federal program is not modified with respect to these matters.

The University's responses to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance
Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-003 and 2018-004, that we consider to be significant deficiencies.

The University's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Cincinnati, Ohio
March 29, 2019

Cincinnati Christian University

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified Opinion			
Internal control over financial reporting:				
Material weakness(es) identified?		yes	X	no
Significant deficiency(ies) identified not considered to be material weaknesses?	X	yes		none reported
Noncompliance material to financial statements noted?	X	yes		no

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?		yes	X	no
Significant deficiency(ies) identified not considered to be material weaknesses?	X	yes		none reported
Type of auditor's report issued on compliance for major programs:	Unmodified Opinion			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	yes		no

Major Program

CFDA Numbers	Name of Federal Program or Cluster
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans Program

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000			
Auditee qualified as a low risk auditee?		yes	X	no

Section II - Financial Statement Findings

2018-001 Segregation of Duties Related to Journal Entries and Timely Reconciliations

Criteria: Segregation of duties, reviews, and timely reconciliations should be in place to ensure adequate internal controls.

Condition: A small number of individuals have the primary responsibility for performing most of the accounting and financial duties. As a result, there is a lack of segregation of duties. The same person who prepares the monthly financial statements has the ability to record journal entries, with no second review. In addition, we noted certain account reconciliations and the related journal entries were not prepared for several months due to limited staff resources.

Cause: Due to a limited number of personnel, adequate segregation of duties and reviews have not been maintained. In addition certain reconciliations are not being performed on a timely basis.

Effect: The financial statements could be misstated as a result of errors due to the limited accounting staff. The lack of segregation of duties and lack of or delay in preparation of reconciliations could result in misstatements of the financial statements.

This finding was reported as finding 2017-001 in the prior year audit reporting package.

Recommendation: The financial statements are reviewed by the President and the Finance Committee which provides a level of mitigating controls. However, proper segregation of duties are recommended. Procedures should be implemented that require a review of journal entries by another individual to limit potential misstatements of the financial statements. Additionally, monthly reconciliations and the related entries should be recorded in a timely manner.

Views of responsible officials: See pages 39-40 for Corrective Action Plan.

2018-002 Donor Restricted and Endowment Spending

Criteria: Spending of donor restricted and endowment funds for the University is governed by Ohio Uniform Prudent Management of Institutional Funds Act (OUPMIFA).

Condition: The University has adopted investment and spending policies for donor restricted and endowment assets based on their interpretation of the state law. Due to the financial condition of the University, the University has borrowed against its donor restricted and endowment assets and is not in compliance with the applicable state law.

Cause: In order to meet cash flow needs, the University has used donor restricted and endowment assets to meet current obligations and expenditures.

Effect: The University has not complied with the OUPMIFA related to its use of donor restricted and endowment assets.

Recommendation: As the financial condition of the University improves, the University should re-establish policies for management of donor restricted and endowment assets in accordance with OUPMIFA.

Views of responsible officials: See pages 39-40 for Corrective Action Plan.

Section III – Findings and Questioned Costs for Federal Awards

2018-003 Oversight of Student Financial Aid Department

Federal Program: Student Financial Aid Cluster

Criteria: According to 2 CFR 200.303(a) the non-federal entity must: establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition: A small number of individuals have the primary responsibility for performing most of the student financial aid duties. As a result, there is a lack of segregation of duties, specifically, the Associate Director of Financial Aid determines student eligibility for federal student financial aid, calculates Title IV refunds, and performs other procedures related to federal student financial aid that are not reviewed by another individual at the University which does not provide proper oversight of the student financial aid department.

Cause: Due to the limited number of personnel, adequate segregation of duties have not been maintained. Adequate procedures have not been established to review the activity related to student financial aid performed by the Associate Director of Financial Aid.

Effect: Financial aid could be improperly awarded and errors could exist and not be detected.

Questioned costs: Not determinable

Context: Controls were not effectively designed to maintain proper segregation of duties.

This finding was reported as finding 2017-003 in the prior year audit reporting package.

Recommendation: In order to ensure that financial aid is awarded properly, the University should develop procedures that provide oversight and review of federal student financial aid activities. This would include the determination of eligibility, correspondence with students and the calculation of Title IV refunds.

Views of responsible officials of the auditee: See pages 39-40 for Corrective Action Plan.

Section III – Findings and Questioned Costs for Federal Awards (Continued)

2018-004 Eligibility

Federal Program: Student Financial Aid Cluster

Criteria: According to 34 CFR 685.200(a)(iii) a student is eligible to receive a subsidized federal direct loan if the student has received a determination of eligibility for the period of enrollment for which the loan is sought.

Condition: During the course of eligibility audit procedures, we identified one student from a sample of 40 who was improperly packaged unsubsidized federal direct loans and was not awarded a subsidized federal direct loan as required.

Cause: Due to the limited number of personnel, adequate procedures have not been established to review the activity related to student financial aid performed by the Associate Director of Financial Aid. Controls are not effectively designed to identify student information that could cause adjustments to student's financial aid package.

Effect: The University has not complied with the requirements of 34 CFR 685.200(a)(iii).

Questioned costs: Not determinable

Context: Controls were not effectively designed to properly award student aid and as a result awarding was not proper.

Recommendation: The University should revise their packaging procedures to ensure that student information is properly reviewed so that applicant's financial aid package is based on the correct information to ensure proper awarding.

Views of responsible officials of the auditee: See pages 39-40 for Corrective Action Plan.

Schedule of Prior Year Audit Findings
Year Ended June 30, 2018

Section II - Financial Statement Findings

2017-001 Segregation of Duties Related to Journal Entries and Timely Reconciliations

Criteria: Segregation of duties, reviews, and timely reconciliations should be in place to ensure adequate internal controls.

Condition: A small number of individuals have the primary responsibility for performing most of the accounting and financial duties. As a result, there is a lack of segregation of duties and certain processes are not reviewed. The same person who prepares the monthly financial statements has the ability to record journal entries, with no second review. In addition, we noted certain reconciliations and the related journal entries were not prepared for several months due to staffing issues.

Cause: Due to a limited number of personnel, adequate segregation of duties and reviews have not been maintained. In addition, certain reconciliations are not being performed on a timely basis.

Effect: The financial statements could be misstated as a result of errors from journal entries recorded or from the preparation of the payroll.

Recommendation: The financial statements are reviewed by the President and the Finance Committee which provides a level of mitigating controls. However, proper segregation of duties are recommended. Procedures should be implemented that require a review of journal entries by another individual. Additionally, monthly reconciliations and the related entries should be recorded in a timely manner.

Corrective action taken: Due to the financial position of the University, addition of staff within the student financial aid department is not feasible. Management continues to refine processes and implement more monitoring controls by senior leadership and governance to review overall financial performance.

Summary Schedule of Prior Audit Findings (Continued)
Year Ended June 30, 2018

Section III – Findings and Questioned Costs for Federal Awards

2017-002 Enrollment Reporting, Attendance Reporting, and Refund Processing

Federal Program: Student Financial Aid Cluster

Criteria: According to 34 CFR 685.309(b)(2), unless it expects to submit its next student confirmation report to the Secretary within the next 60 days, the University must notify the Department of Education within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who has ceased to be enrolled on at least a half-time basis. In addition, for institutions required to take attendance, 34 CFR 668.22(b) states that the withdrawal date for a student who ceases to attend class, including a student who does not return from an approved leave of absence, is the last date of academic attendance as determined by the institution from its attendance records. According to 34 CFR 668.22, unearned funds must be returned no later than 45 days after the date of the school's determination that the student withdrew.

Condition: During the course of performing eligibility audit procedures, we identified one student from a sample of 40 who graduated in the fall semester, but the National Student Loan Data System (NSLDS) was not notified of the graduation within the required timeframe (30 days).

During the course of refund testing, we identified 1) one student from a sample of four who withdrew and did not have their status reported to the NSLDS in the required timeframe and 2) Refund of funds was not performed timely for one student from a sample of four.

Cause: Controls are not effectively designed to report changes in student enrollment status within 30 days and return funds within the 45 days. In addition, controls are not in place to ensure timely and accurate reporting of student attendance.

Effect: The University has not complied with the requirements of 34 CFR 685.309(b)(2) and 334 CFR 668.22.

Questioned costs: Not determinable

Recommendation: The University should design controls to ensure student enrollment changes are reported within the required time frame. The University should also design controls to ensure attendance is reported timely and accurately. Lastly, the University should design controls to ensure funds of withdrawn students are refund within the required time frame.

Corrective action taken: The University implemented more rigorous review controls to appropriately report student changes correctly and within the appropriate timeframe as well as perform timely refunds.

Summary Schedule of Prior Audit Findings (Continued)
Year Ended June 30, 2018

2017-003 Oversight of Student Financial Aid Department

Federal Program: Student Financial Aid Cluster

Criteria: According to 2 CFR 200.303(a), the non-federal entity must: establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition: The Associate Director of Financial Aid determines student eligibility for federal student financial aid, calculates Title IV refunds, and performs other procedures related to federal student financial aid that are not reviewed by another individual at the University.

Cause: Adequate procedures have not been established to review the activity related to student financial aid.

Effect: Errors could exist and not be detected.

Questioned costs: Not determinable

Recommendation: The University should develop procedures that provide oversight and review of federal student financial aid activities. This would include the determination of eligibility, correspondence with students and the calculation of Title IV refunds.

Corrective action taken: Due to the financial position of the University, addition of staff within the student financial aid department is not feasible. Management continues to refine processes and implement more monitoring controls by senior leadership and governance to review overall financial performance.

CINCINNATI CHRISTIAN UNIVERSITY

Corrective Action Plan

For the Year Ended June 30, 2018

Identifying Number: 2018-001

Finding: A small number of individuals have the primary responsibility for performing most of the accounting and financial duties. As a result, there is a lack of segregation of duties. The same person who prepares the monthly financial statements has the ability to record journal entries, with no second review. In addition, we noted certain account reconciliations and the related journal entries were not prepared for several months due to limited staff resources.

Corrective Actions Taken or Planned: Journal entries will be required to have another individual post the entry in the GL after a detailed review. Monthly reconciliations and the related journal entries will be prepared and posted in a timely manner.

Identifying Number: 2018-002

Finding: Spending of donor restricted and endowment funds for the University is governed Ohio Uniform Prudent Management of Institutional Funds Act (OUPMIFA). The University has adopted investment and spending policies for donor restricted and endowment assets based on their interpretation of the state law. Due to the financial condition of the University, the University has borrowed against its donor restricted and endowment assets and is not in compliance with the applicable state law.

Corrective Actions Taken or Planned: The University has several strategies in place to improve financial performance. In coordination with the CCU Foundation and investment portfolio managers, the University is concurrently reviewing its investment policy and financial improvement initiatives (i.e. operations and fundraising), establishing and restructuring internal borrowing. Strategic planning objectives will include a scheduled structure to measure progress following implementation.

Identifying Number: 2018-003

Finding: A small number of individuals have the primary responsibility for performing most of the student financial aid duties. As a result, there is a lack of segregation of duties, specifically, the Associate Director of Financial Aid determines student eligibility for federal student financial aid, calculates Title IV refunds, and performs other procedures related to federal student financial aid that are not reviewed by another individual at the University which does not provide proper oversight of the student financial aid department.

Corrective Actions Taken or Planned: The University will develop procedures that provide oversight and review of federal financial aid activities. This will include the determination of eligibility, correspondence with students and the calculation of Title IV refunds.

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Identifying Number: 2018-004

Finding: During the course of eligibility audit procedures, we identified one student from a sample of 40 who was improperly packaged unsubsidized federal direct loans and was not awarded a subsidized federal direct loan as required.

Corrective Actions Taken or Planned: The University will design controls to ensure student packaging information is reviewed so that the correct information is used to award student aid.

Randy Koehler	3/29/19
Randy Koehler, VP of Finance & Administration	Date

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